



Members' guide to procurement

IDeA procurement

In association with:



NabarroNathanson



national **procurement** strategy
for local government

Purpose

This guide is designed to help elected members play an effective role in procurement. That includes **leadership**, **decision-making** and **scrutiny** roles.

The advice that is offered draws on good practice developed by members in English and Welsh local authorities.

It is intended to support the implementation of the *National Procurement Strategy for Local Government* in England and *Better Value Wales* in the Welsh local government sector.

Included are checklists of questions that members can use to assess corporate capability and capacity and the progress of major procurement projects.

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Why procurement is a member issue

Members instinctively recognize the importance of procurement.

The **consequences** of a major cost over-run on a capital scheme or the failure of a big ICT project are well understood and to be avoided. Money wasted paying “over the odds” for goods and services is money that could have gone into frontline public services or council tax reductions.

Increasingly, members are seizing the **opportunities** that new powers (like the power to promote the economic, social and environmental **well-being** of communities) present to develop **innovative** models of service delivery. These often involve **collaboration** across the public sector and the forging of **partnerships** with private or voluntary sector suppliers to improve services.

In **construction** there has also been a parallel growth in partnering following the Egan Report (*Rethinking Construction*).

With procurement spending now running at over **£40 billion** a year, and the growth in partnerships, **democratic accountability** is essential.

In short, the leadership and the quality of decision-making displayed by members will make a huge difference to outcomes for **communities** throughout England and Wales.

And there has never been a greater need for **scrutiny**.

Because of its importance, procurement is now a focus of attention in **CPA** and the Wales Programme for Improvement.

What is “procurement”?

In this guide, procurement means the process of **acquiring goods, works and services** from suppliers. In other words, it covers everything from “paperclips to PFI”.

The procurement process spans the whole **cycle** from identification of **needs** through to the end of a services contract or the end of the useful life of an asset.

The process includes **option appraisal** (the “make or buy” decision). In major projects this is a key stage. Members will often be called upon to consider a range of options – **service delivery models** – set out in a “**business case**” and to decide which option will be pursued. This can be a demanding task.

In procurement, **best value for money** is defined as:

“the **optimum** combination of **whole life costs** and **benefits** to meet the **customer's** requirement”.

Contracts should not be awarded on the basis of **lowest initial price** alone. There must always be an assessment of quality and the costs that will be incurred by the authority **throughout the life** of the asset or contract period.

In local government procurement must be carried out in compliance with **procurement regulations** (EC rules) and other **legal requirements** including those relating to non-commercial matters, staff transfers (TUPE), pensions and the conditions of new starters), health and safety and race equality. *Table 1* contains a brief outline of the procurement regulations. **Sustainability** is a key policy consideration.

Procurement regulations

Public sector procurement is governed by EC directives and UK **procurement regulations** (EC rules). These apply to the majority of procurements of works, services and supplies with a total value, excluding VAT, over a specified threshold (see table). They stipulate rules and **time limits** for the procurement process particularly concerning **specifications, advertising, supplier selection, tendering and contract award** which aim to increase competition across Europe.

Authorities need to comply with their obligations under the procurement regulations in order to avoid legal challenge by suppliers or the European Commission.

Threshold Value

Works: £3,861, 932
Services: £154,477
Supplies: £154,477

Procurement regulations thresholds at June 2003.
These are regularly reviewed.

Table 1: The procurement regulations

What are the procurement essentials?

The main IDeA guidance, *Modern Procurement Practice in Local Government*, describes the essential features of a modern approach to procurement as:

- **corporate arrangements** that create the **capacity** and **capability** necessary for successful procurement, contract management and supplier relationships.
- a **procurement process** that is built around the **procurement cycle**, a structured approach to **project** and **risk management** and **legal** requirements.
- **contract management**, planned well in advance, that is about ensuring benefits (**outcomes**) are delivered, **continuous improvement** and sound **relationships** with suppliers as well as **controls**.

Corporate arrangements

The arrangements necessary to create corporate capability and capacity for procurement are discussed in some detail in *Modern Procurement Practice*. These are summarized in *Table 2*.

Corporate arrangements

Leadership. Commitment from the top by members and senior managers.

Procurement strategy. Procurement's contribution to strategic objectives. A risk-based strategy based on an analysis of spend and the authority's requirements.

Procurement policies. Including best value for money, collaboration, partnering, sustainability, health and safety, equalities, workforce issues etc.

Procurement procedures. User-friendly, communicated and supported by training. Incorporate controls and compliance with procurement regulations (EC rules).

Procurement plan. Covering a five-year period, a tool for prioritizing and resourcing major projects.

Register of contracts. Required for transparency and a management tool.

Ethics and fraud prevention. A prevention strategy and ethical dealing with suppliers.

Procurement skills. Professional qualifications for the centre. Skill sets required by all project participants, including members and senior managers.

Centre of expertise. The source of procurement advice and commercial expertise. Point of contact for suppliers. Conduit for sharing lessons learnt.

Management information and performance measurement. Tools to manage and continuously improve. Tracking strategy implementation.

Supplier intelligence. Centre of expertise is a repository of knowledge on suppliers and markets.

Supplier relationships. Understand how suppliers view you. Build relationships with key suppliers.

Collaboration. Make use of purchasing power. Departments and authorities should collaborate to pool resources and "aggregate" requirements to obtain discounts. Services and construction are the big challenges for collaboration.

Promoting diversity and competition.

Consider the value added by small firms, social enterprises, voluntary and community sector suppliers and ethnic minority businesses when making prominent decisions including their role in the supply chain for partnerships. Publish a 'selling to the council' guide on the website and details of contracts out to tender.

Resourcing projects. Projects fail if there is no commitment to resource them properly.

Business case culture. Make it part of the culture never to enter procurement without a sound business case.

Procurement strategy

Procurement is not an end in itself. It is about delivering the authority's strategic objectives.

Figure 1 illustrates how procurement may fit within the authority's strategic framework.

The development of procurement strategy begins with an analysis of **spending patterns** and the mapping of requirements in the authority's procurement "**portfolio**". (See Figure 2).

Risk-based strategies are then developed by officers for the various **requirements** in the portfolio.

For example, **partnering** might be considered an appropriate strategy for **high-risk, high-value** ("strategic") procurements. These do not occur very often, but they require the greatest resources and know-how.

Table 2: Corporate arrangements

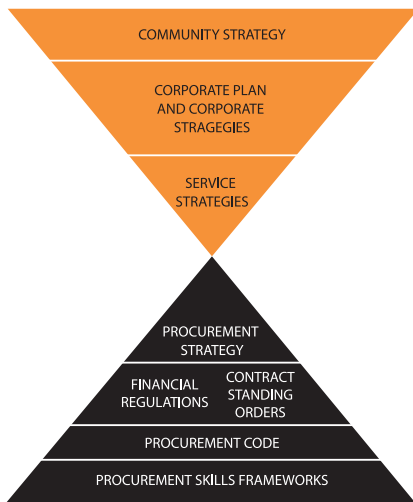


Figure 1: Strategic framework

Framework agreements and corporate contracts enable authorities to “leverage” their buying power for **low-risk, low value** requirements when large volumes are being procured. **Framework agreements** are flexible arrangements. Pre-tendered under the procurement regulations, they enable authorities to simply “call-off” requirements when they are needed.

Requirements of low value can be critical to the question of the authority too. Strategies for “**bottleneck**” items include multiple suppliers, back-up contractors and partnering.

Collaboration with other local authorities and partners (e.g. in purchasing consortia or joint procurement projects) can save on procurement resources and increase purchasing power further. So can use of national framework agreements such as those put in place by the Office of Government Commerce (OGC).

eProcurement can be a powerful tool. There are many solutions on the market, including some that can be fully integrated with back office systems and payment. These solutions allow authorities to:

- Receive quotations and **tenders** electronically in a secure environment
- **Order** goods and services securely over the internet from **electronic catalogues**
- Conduct electronic **auctions**

eMarketplaces generally combine these features with the bonus that they also enable authorities to collaborate to create **shared catalogues** that everyone can use.

Procurement cards (like GPC, the government procurement card) and electronic **payment** (BACS and CHAPS) are also sometimes counted as eProcurement. They improve information, increase efficiency and reduce paperwork.

The first benefit of eProcurement is **better information** on which to base decisions. In time eProcurement can release **resources** for allocation to **strategic** procurement and can result in contracts that offer improved **value for money**.

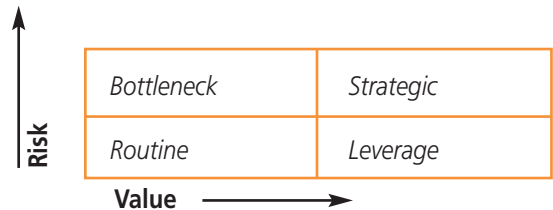


Figure 2: Procurement portfolio

For it to be successful, members need to **own** the procurement strategy and ensure it is **implemented**. They should take part in the mapping exercise. A workshop format is good for this.

Procurement process

Common reasons why major procurements in local government fail include:

- Lack of member and senior management **commitment** throughout the process.
- Inadequate **business case**, where the requirement is uncertain, the contribution to strategic **objectives** is unclear and/or there is a lack of **realism** about the authority's ability to deliver services in new ways.
- Inadequate resources, especially the skills and expertise needed to deliver a successful project.

The modern good practice is therefore to:

- Adopt a procurement **cycle** approach that gives appropriate emphasis to the role of the business case.
- Manage major procurements as **projects**, incorporating risk management and **gateway reviews** (see below).

Procurement and contract management

Project management. Treat procurement as a project. Adopt a structured approach for all medium and high- risk projects. Involve procurement and other professional advisers from an early stage.

Project organization. Be clear about roles and responsibilities including members, senior managers and the project team. The project needs to be owned at senior level. Must be a dedicated project manager.

Risk management. The process of identifying, analyzing and controlling risks throughout the project

Procurement cycle. More than tendering, procurement is a cycle beginning with the identification of needs and a business case and continuing till the contract ends/end of the asset's life.

Gateway review process. Independent review of major procurement projects at key points in the cycle. Recommended. Managed by 4ps.

Contract management. Foundations are laid during the procurement process. Determine arrangements and involve contract manager at an early stage. Focus on benefits (outcomes).

Supplier relationships. Aim to build sound relationships with key suppliers as well as controlling the contract. Market the authority.

Table 3. Good practice in procurement

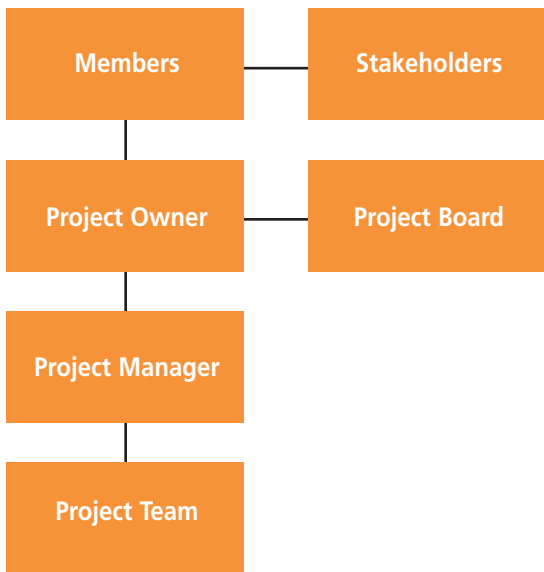


Figure 3. Project organisation

Figure 3 shows a project organization suitable for procurement, including typical roles and responsibilities.

The **project owner** is a senior manager who has personal responsibility for driving the project forward and making it a success.

The project owner may chair a **project board** that typically comprises senior managers from legal, finance, procurement, HR, ICT and property (as appropriate to the contract). The board ensures all aspects of the project are addressed and will act on feedback from stakeholders.

The **project manager** is responsible for co-ordinating the project team and overseeing the delivery of the project on a day-to-day basis.

For major projects there must be a **dedicated** project manager with the necessary **authority** delegated to them. To manage without is a **false economy**.

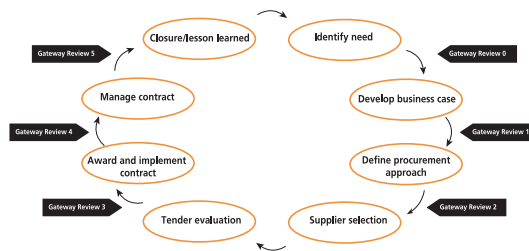


Fig. 5. Procurement cycle and gateway reviews

Procurement cycle

The key stages of the procurement cycle are shown in Figure 4. This also illustrates the review points at which “gateway reviews” are carried out.

Gateway reviews are being introduced into local government by 4ps. Essentially, these are **independent peer reviews** carried out at key decision points in the cycle.

The outcome of using this approach is projects that are more likely to be completed on time and budget and to meet the clients’ requirements.

The gateway process is not an audit of a project but a tool to assist the project owner to deliver a successful project. Authorities should decide to apply a gateway review process on the basis of the **risk** inherent in the procurement project. The 4ps PASS tool has been developed to help authorities do this.

Table 4 lists some of the critical success factors for procurement projects.

Critical success factors: procurement

Members' involvement. Executive direction and decisions on strategic projects; scrutiny and challenge of all major projects to ensure that they support community and corporate strategies.

Senior management involvement. Prompt decisions on key issues; enabling access to resources outside the project team's immediate control.

Ongoing monitoring of the project. Full consideration given to corporate issues. Solutions and outcomes fit with the strategic direction and are of value to the authority.

Clear objectives defined at the outset, and keeping the project aligned with strategic objectives.

Good planning. Realistic timescales and milestones for delivery; access to key people

when required; effort focused in the right way when needed and documentation that is complete and correct

Appropriate use of resources. The right people for the job, not just the next available person. There is full consideration of the skills and input required. Complete clarity about who should be doing what.

Stakeholder engagement. Resulting in specifications that meet their needs and buy-in to the procurement project

Effective risk management. Risks to the organisation are properly considered

Good quality. For example, good design, complete and correct specifications. Well-managed evaluation – all of the appropriate persons involved; appropriate criteria specified that meet the current needs.

Focus on **delivering the right outcomes**, making sure that enthusiasm for project management techniques does not get in the way of success.

Ensuring that the project manager is **empowered** to deliver the project, including formal **delegation of authority** as necessary.

Table 4: Critical success factors for procurement projects

Contract management

Members should expect a similar degree of senior management ownership of major projects once contracts are awarded (a **contract owner**) and a properly resourced **contract management team** (services).

The foundations for success in contract management are laid during the procurement process. Some of the critical success factors are shown in *Table 5*.

Critical success factors: contract management

- Requirements specified in **comprehensive specification**
- Involve the **contract manager** at the outset of the project
- Accurate understanding of the **service requirement**
- Good **supplier selection**
- **Relationship** built during procurement process and actively managed
- Clear **roles and responsibilities**
- Good **knowledge** of the contract
- Identification, allocation and management of **risk**
- Encouragement of **continuous improvement**
- Focus on realising the benefits identified in the business case (**outcomes**)
- Management of **performance shortfalls**
- Adequate tools to tackle **poor performance**
- **Continuity** of knowledge throughout the procurement cycle

- **Control of change** (variations)
- Robust **financial control**
- **Exit** strategy

Table 5: Critical success factors for contract management

Supplier relationships

Authorities need to identify their **key suppliers** (in terms of both spending and dependency). It will be in both parties' interests to build a good relationship. *Figure 2* shows a tool that can be used for this.

Relationship building should always be an objective of the procurement process for partnerships. Member and senior management **commitment** is always viewed positively by suppliers bidding for contracts, particularly major partnerships.

Figure 5 shows another useful tool. It illustrates how suppliers view their customers.

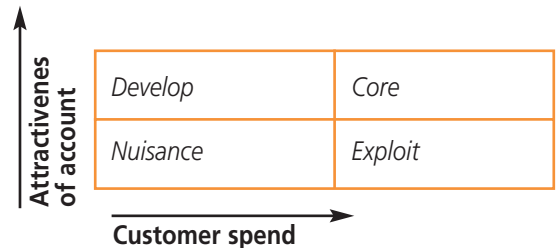


Fig. 5. Supplier's view of a customer

If the authority wants a good **reputation** in the market and to attract the best suppliers, it should understand how it is viewed. Mapping where you think key suppliers would place the authority is another good exercise that members can do in a workshop setting.

Of course there is no substitute for obtaining the real views of suppliers. This can be approached by “**market sounding**” exercises pre-procurement and by surveying and consulting existing suppliers.

Depending on the findings, it may be necessary to actively “**market**” the authority to suppliers as a client. This is something else to which members can make a significant contribution.

What is the member role in procurement?

Procurement and contract management should be a **strategic priority** in every authority. **Seizing opportunities** to improve public services through new service delivery models and ensuring that the authority has the necessary corporate **capacity** and **capability** to delivery change successfully are key leadership tasks for members.

The strategic importance of procurement should be reflected in an executive portfolio, creating a member champion for procurement.

Members on the **executive** might have prime responsibility for:

- Adopting the corporate procurement **strategy**, ensuring it is aligned with strategic objectives and monitoring its **implementation**
- Overseeing the **corporate arrangements** for procurement and contract management to ensure they are operating effectively.
- Making **key decisions** in the procurement cycle for major projects (e.g. business case and contract award).
- Promoting the use of **gateway reviews**.
- Monitoring the **performance** of partnerships and other key contracts.
- **Learning lessons** from major projects and partnerships.
- Leading best value **reviews** of procurement and contract management.

The role of **overview and scrutiny** members might encompass:

- Conducting **inquiries** into new models of service delivery
- Reviewing areas of **high spend** to identify opportunities for improved value for money
- **Challenging** the progress of major procurement projects
- Reviewing the **performance** of partnerships and other key contracts
- Ensuring that **lessons** are learnt from major projects and partnerships.

Member checklists

Corporate

Here are some questions that members might ask about their authority's corporate arrangements for procurement.

Corporate checklist

- What are we spending as a council?
- What are we spending the money on?
- Are we clear which goods and services are critical to the council?
- Are we getting value for money and the outcomes we want?
- What does it cost us to order goods and services?
- Do we have a strategic approach?
- Do we really challenge the status quo in our reviews?
- Are we seizing appropriate opportunities?
- Are our procedures sound?
- How are we keeping fraud and corruption in check?
- Are we complying with the EC procurement rules?
- Do we have a team of experts?
- How much of our spending do they influence?
- Do we have the necessary skills?
- How do we ensure there is good practice throughout the council?
- Can we deliver projects successfully?
- How well do we manage contracts?
- Are relationships with suppliers good?

Major projects

Here are some questions that members might ask at relevant points in the **procurement cycle** for a major project.

Projects checklist

- Have we identified needs?
- Do we know if users are satisfied?
- How good is the current service?
- What outcomes do we want?
- What budget is available?
- Have all the options been considered?
- Can we afford it?
- Is the timescale realistic?
- Are there suppliers that can do it?
- Is this the first time it has been done?
- How are we packaging it?
- Are we working in partnership?
- What service standards are we setting?
- What wider benefits will there be for the community?
- How are we addressing equalities?
- How is health and safety built in?
- Will we meet our sustainability objectives?
- Have staff been consulted?
- Who will be in charge of the project?
- Have we got the people to do this?
- How will we control risk?
- Does this project affect anything else we are doing?
- What will happen if things change during the contract?
- What incentive is there to perform well?

- How will we keep the service going if the contract fails?
- How are we going to monitor it?
- How will poor performance be tackled?
- Can we ensure that we learn lessons for next time?

Further Reading

Details of the main **IDeA** guidance can be found at www.idea.gov.uk/knowledge. The guidance includes:

- Strategic Context
- Managing the Procurement Process
- Managing Contracts and Supplier Relationships
- Project Management for Procurement
- Tools and Techniques
- Suppliers Procurement Pack
- Services Procurement Pack

The **Welsh Local Government Procurement Support Unit's** guidance can be accessed via the WLGA site: www.wlga.gov.uk

For information on **4ps** guidance on the gateway review process and public-private partnerships in local government go to www.4ps.gov.uk

This publication contains general information about English and Welsh law. Detailed specialist advice should always be obtained before taking or refraining from any action as a result of the comments made in these pages, which are only intended as a general guide to the particular subjects.

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